

Capital Ideas



HILLIARD
LYONS

May 1999

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YEAR 2000 READINESS DISCLOSURE

Date safe in the hands of those who are prepared.

It's not every day that something as obscure as computer programming makes the news.

But many people are preoccupied with what has come to be known as "the Y2K bug." Simply put, it is a situation where computers may not properly interpret dates beyond December 31, 1999.

It began as a cost saving effort in the early days of programming. To save space required to store data, programmers began abbreviating dates.

The two-digit practice worked fine until programmers realized that the year 2000 would show up as 00. Since a computer cannot distinguish whether 00 refers to 1900 or 2000, all references to the indicator 00 must be reprogrammed.

Some fear that Y2K will cause the biggest computer crash of the century. They say that the errors produced will cause planes to crash, elevators to stall and stock markets to fail.

Experts weigh in by saying that there is no doubt that some computer systems will fail and some people will be inconvenienced. But overall, the world will continue to function as normal, business will be conducted in its usual way and the world economy will continue to roll along.

That's because people and institutions have too much at stake to allow a crash. Most are in the process of correcting the problem. In the financial services field, planning is a basic ethic. We're good at it.

Hilliard Lyons has been planning for the year 2000 since 1996. Most of our computer hardware and software was developed, purchased or upgraded in the past few years. We have a lab in the heart of our home office dedicated to testing systems in a simulated Year 2000 environment.

We also contract with a vendor named BETA Systems, Inc. for data management. Our contract with BETA mandates Y2K compliance in all functions. To ensure fulfillment, our technical staff members have been meeting with BETA's every two weeks since April 1998 on Year 2000 issues alone. We feel that Hilliard Lyons and BETA Systems will be ready.

However, we are not alone. Our business is highly interdependent and we cannot meet with every firm in the industry. Instead, we rely on a federal agency, the Securities and Exchange Commission, and our industry associations, primarily the Securities Industry Association, to take the lead in Y2K compliance.

A more proactive trade group is the Securities Industry Association (SIA). Members include most every firm that has anything to do with investments.

Committees have been working to ensure that all member firms are ready for the new millennium. In March and April 1999, the securities industry's information infrastructure was tested in its entirety.

On six weekends, 400 firms rolled their clocks forward to the Year 2000, then

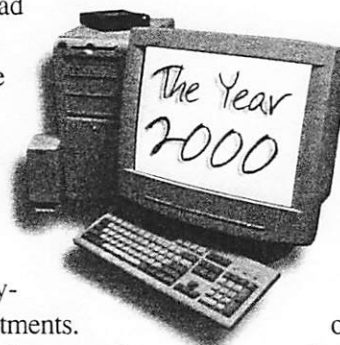
simulated imaginary trades from initial order all the way through clearance and settlement. The interdependencies of stock exchanges, brokerage houses, dealers, computers, networks and telephones also were tested.

Hilliard Lyons, and the industry as a whole, performed well, observers say. The firm passed all tests and even conducted, and passed, some tests that were not mandated by the SIA. At Hilliard Lyons, even non-critical systems made the grade.

Independent observers hired by the SEC audited the process to ensure a fair test and an accurate reporting of events. Before December 1999, the SIA will publish the auditors' account of test results. Once completed, the report is expected to be available to the general public via the Internet.

Hilliard Lyons also is prepared in the unlikely event that electrical service fails in Louisville. If Y2K somehow chokes the supply of electricity to the home office, Hilliard Lyons has its own generator. The machine has been on duty for several years and has performed perfectly when severe weather caused Louisville Gas & Electric service to flicker or fail.

Over the past 25 years, the securities industry has faced and overcome many technological challenges. These include higher volumes of trades, the conversion to a shorter settlement period, a smorgasbord of new products and the globalization of markets. We expect that the Year 2000 soon will be just another one of those items. ■



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